Moody's

Rating Action: Moody's assigns Aa2 to Energy Northwest's (WA) Project 1, Columbia Generating Station, and Project 3 electric revenue refunding bonds; Outlook is positive

20Apr2023

Approximately $518 million of debt affected

New York, April 20, 2023 -- Moody's Investors Service has assigned Aa2 ratings to Energy Northwest, WA's $16.3 million of Project 1 Electric Revenue Refunding Bonds, Series 2023-A, $428.8 million of Columbia Generating Station Electric Revenue and Refunding Bonds, Series 2023-A, and $73.1 million of Project 3 Electric Revenue Refunding Bonds, Series 2023-A. The rating outlook for Project 1, CGS, and Project 3 is positive.

RATINGS RATIONALE

The Aa2 rating assignment on Energy Northwest, WA's (ENW's) Project 1, CGS, and Project 3's revenue refunding bonds considers Bonneville Power Administration's (BPA) contractual obligation to pay including debt service under each project's net billing agreement, BPA's long history of meeting its contractual obligations, and BPA's Aa2 issuer rating.

The BPA's Aa2 rating considers its strongly positioned and expansive network of hydro and transmission assets, access to competitive power, long-term power supply contracts with customers through 2028 and credit supportive attributes as a line agency of the Government of the United States of America (US: Aaa stable). The borrowing ability under the US Treasury line and the ability to defer debt service payments to the US Treasury are two of the most critical support features from the US government. Recently, the benefits of BPA's close linkages with the US federal government was further highlighted given the approximately 2,000 wildfire related claims totaling an estimated $2 billion. These claims will be resolved through the Federal Tort Claims Act and any payments made will be from the United States Judgment Fund, not BPA. We understand BPA does not need to reimburse the federal government for these payments.

The credit profile also acknowledges credit challenges including hydrology and wholesale market price risk, a 'regulated utility' like ratemaking process, environmental burdens, and typically low consolidated financial metrics for the rating. Hydrology and wholesale market prices remain the greatest volatility drivers to BPA's financial performance.

For FY 2022, BPA had an exceptional year with reserves for risk increasing by over 83% to $1.51 billion compared to $825 million in the prior year and net revenue increasing to $2.18 billion, which is around 36% higher than FY2021 and around 59% higher than its 10 year. A sharp increase to power prices partly and above average hydrology at around 103% of the long term average were the primary contributors to BPA unusually strong financial performance. Since BPA's reserves are well above its maximum goals, BPA has committed to utilize $500 million of which $350 million would be credited back to power customers in FY2023, $50 million will be used to pay for accelerated fish and wildlife expenses, and $100 million will be used to reduce debt, fund capital spending, support liquidity or increase the probability of a reserve distribution at the end of FY2023. Unlike FY2022, regional hydrology for FY2023 is expected to be well below average at around 79% although power prices remain high. According to BPA forecast provided in February 2023, they expect reserves for risk to decline to around $1 billion at the end of FY2023. Looking forward, we expect BPA's reserves for risk to remain around $1 billion given its proposed 2024-2025 rates that reflects BPA's cost recovery approach that will be finalized prior to the start of the FY2024 period on October 1, 2023.

BPA's positive outlook considers credit supportive developments including a $10 billion increase to BPA's borrowing line with the US Treasury and incorporation of credit supportive features in BPA's updated financial plans including deleveraging over time. That said, the US government has reached its debt limit on January 19, 2023 and has taken extraordinary measures to allow the US government to continue paying its obligations. We expect the US Treasury will exhaust its resources sometime in August. While we currently incorporate the baseline expectation that an agreement addressing the debt limit will be made prior to the US Treasury exhausting its resources, a failure to do so could have material consequences for BPA such as limiting its ability to borrow under the US Treasury line or limiting its ability to access the Bonneville Fund, which is held by the US Treasury, to make cash payments. We expect to resolve BPA's outlook once there is greater clarity to the US debt limit.

RATING OUTLOOK

BPA's positive outlook considers BPA's increased borrowing authority under the US treasury line, BPA credit supportive financial policies including deleveraging over time, and our baseline expectations that the US government will reach an agreement on raising or suspending the debt limit. The outlook on Project 1, CGS, and Project 3 reflects the positive outlook on BPA.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

BPA's rating is likely to be upgraded if the US government resolves its debt limit and BPA maintains or expands its credit supportive goals and policies under its financial policies.

The rating on BPA supported bonds could be upgraded if BPA is upgraded.

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

Given the positive outlook, a downgrade is not likely. However, BPA's rating could be downgraded if the US government is unable to resolve its debt limit on a timely basis or if BPA's ability to access its funds or availability under the US Treasury line is materially constrained.

The ratings on BPA supported bonds could be downgraded if BPA is downgraded or if the underlying contractual arrangement is violated.

LEGAL SECURITY

Project 1, CGS, and Project 3 revenue bonds are secured by a pledge of specific project revenues primarily sourced under tri-party net billing agreements with BPA and project participants. The net billing agreement obligates the project participants, consisting of numerous municipal and cooperative electric utilities, to pay ENW their proportionate share of the project's annual costs, including debt service, irrespective of whether the project is operable or terminated. BPA, in turn, is obligated to pay (or credit) the participants identical amounts by reducing the amounts the participants owe for power and service purchased from BPA under their power-sales agreements. BPA has also agreed, in the event of any insufficient payment by a participant, to pay the amount due in cash directly to the project. In 2006, ENW and BPA adopted a voluntary, direct pay agreement whereby BPA directly pays ENW for amounts due under the net billing agreements. There are no debt service reserves.

USE OF PROCEEDS

Proceeds from Project 1 and Project 3 revenue bonds will be used to refund maturing bonds to extend maturities, refinance a short term note, and pay a portion of interest due. CGS will use approximately $337 million to extend debt maturities and pay interest with the remainder of its net proceeds used for capital spending. The debt maturity extensions are according to BPA's Regional Cooperation Debt 2 program.

PROFILE

BPA was created in 1937 by an act of the US Congress and is one of four regional power marketing agencies within the US Department of Energy. BPA is primarily responsible for 22 GW of federally owned hydro generation and 15,000 miles of electric transmission assets in the US Pacific Northwest spanning all or parts of eight states. The US Army Corps of Engineers and the Bureau of Reclamation own and operate the hydro projects. BPA's obligations are not backed by the full faith and credit of the US government and its cash payments are limited to funds available in the Bonneville Fund.

METHODOLOGY

The principal methodology used in these ratings was US Public Power Electric Utilities with Generation Ownership Exposure published in January 2023 and available at https://ratings.moodys.com/api/rmc-documents/398041. An additional methodology used in these ratings was US Municipal Joint Action Agencies published in December 2022 and available at https://ratings.moodys.com/api/rmc-documents/396803. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the issuer/deal page for the respective issuer on https://ratings.moodys.com.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website https://ratings.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1288235.

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the EU and is endorsed by Moody's Deutschland GmbH, An der Welle 5, Frankfurt am Main 60322, Germany, in accordance with Art.4 paragraph 3 of the Regulation (EC) No 1060/2009 on Credit Rating Agencies. Further information on the EU endorsement status and on the Moody's office that issued the credit rating is available on https://ratings.moodys.com.

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the UK and is endorsed by Moody's Investors Service Limited, One Canada Square, Canary Wharf, London E14 5FA under the law applicable to credit rating agencies in the UK. Further information on the UK endorsement status and on the Moody's office that issued the credit rating is available on https://ratings.moodys.com.

Please see https://ratings.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the issuer/deal page on https://ratings.moodys.com for additional regulatory disclosures for each credit rating.

Clifford Kim
Lead Analyst
Project Finance
Moody's Investors Service, Inc.
7 World Trade Center
250 Greenwich Street
New York 10007
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Angelo Sabatelle
Additional Contact
Project Finance
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY100,000 to approximately JPY550,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.